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KANSAS HEALTH POLICY AUTHORITY

KHPA Agency Overview
Senate Ways and Means Subcommittee on KHPA
February 6, 2009
Dr. Marcia Nielsen, Executive Director

Good morning Madame Chairman, *Mr. Vice Chairman*, and members of the Committee. I am Marcia Nielsen, the Executive Director of the Kansas Health Policy Authority (KHPA). Today I will provide the subcommittee a brief overview of our agency and an assessment of the Governor's budget.

Agency Overview

KHPA History: The Kansas Health Policy Authority was established in 2005 with passage of S.B. 272 in the Kansas legislature. That bill established KHPA as a state agency within the executive branch of state government (K.S.A. 75-7401, et seq.). The general charge is to improve the health of Kansans and to develop and maintain a coordinated health policy agenda that combines effective purchasing and administration of health care with health promotion oriented public health strategies.

Before 2005, the state of Kansas purchased health care and health coverage for state employees and various other populations through a myriad of different programs and agencies. One of the primary reasons for consolidating those programs into a single agency was to leverage the combined purchasing power of the state to achieve greater efficiency and cost savings.

The bill called for forming a 16-member Board of Directors to govern the agency, including nine voting members appointed by the Governor, Speaker of the House and Senate President, as well as seven non-voting, ex-officio members. The seven ex-officio members include the secretaries of Health and Environment, Social and Rehabilitation Services, Administration and Aging; the director of health of the Department of Health and Environment, the state Insurance Commissioner and the Executive Director. In 2008, the Kansas legislature passed legislation designating the state Education Commissioner as an eighth ex-officio member. The board provides independent oversight and policymaking decisions for the management and operation of KHPA.

KHPA Programs: The Executive Director of KHPA has responsibility and statutory authority for the oversight of the Medicaid and SCHIP programs, the State Employees Health Benefits Program, State Workers Compensation, and the health care data responsibilities of the former Health Care Data Governing Board.

Medicaid: In 1965, Congress amended the Social Security Act by adding Title XIX (Medicaid) which provides medical coverage for individuals of all ages based on financial eligibility. Medicaid is a joint federal-state health insurance program for low income individuals, the aged, and people with disabilities. In Kansas, the federal

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government pays approximately 60 percent of the cost of the program, with the state paying the remaining 40 percent.

SCHIP: In 1997, Congress amended the Social Security Act further by adding Title XXI establishing SCHIP – the State Children's Health Insurance Program. The aim was to insure children whose families earned too much to qualify for Medicaid but too little to afford private insurance. Like Medicaid, SCHIP is a joint federal-state program. However, unlike Medicaid, which is an entitlement program, SCHIP is a block grant program that is subject to federal reauthorization. In 2007 Congress passed a reauthorization bill that expires on March 31, 2009.

In Kansas, the federal government pays approximately 72 percent of SCHIP costs. The state pays the remaining 28 percent as well as any excess above the federal allotment. SCHIP is administered by the state within federal guidelines. Currently, the Kansas program insures children in families with income below 200 percent of the federal poverty level. In 2008, the legislature approved expanding eligibility up to 225 percent of the poverty level, subject to the availability of increased federal funding which has not yet been forthcoming.

HealthWave: The word "HealthWave" originated as the state of Kansas' brand name for the SCHIP program in Kansas. In 2001, Kansas blended SCHIP and Medicaid so that families who are eligible for both programs can have seamless coverage, with the same plan and same providers for all family members. The term now applies to the blended program serving families with members in each of the two programs.

Last month (December) through the Medicaid and HealthWave programs, we provided medical coverage to more than 300,000 people, that includes more than 125,000 infants and children and nearly 88,000 elderly and disabled Kansans. Certain Medicaid-funded long-term care services, including nursing facilities and Home and Community Based Services (HCBS) are managed on a day-to-day basis by the Kansas Department of Aging (KDOA) and the Kansas Department of Social Rehabilitation Services (SRS). These agencies also set policy for the Medicaid programs under their jurisdictions.

Workers Compensation: KHPA administers the workers compensation program for state of Kansas employees. Officially known as the State Self Insurance Fund (SSIF), it was established in 1972 and eventually consolidated into KHPA in 2006. It is a self insured, self-administered program. The SSIF is funded by agencies based on experience rating. The rates are developed by an actuarial service using claims experience, payroll history, and caps on expenses. Rates are currently approved by the Department of Administration and published by the Division of Budget.

State Employee Health Benefits Plan: As an employer, the state of Kansas offers health coverage benefits to its employees and their dependents. In 1984 the legislature established the Kansas State Employees Health Care Commission (HCC) to, "develop and provide for the implementation and administration of a state healthcare benefits program." (K.S.A. 75-6501.) The HCC is chaired by the Secretary of Administration. It determines the benefits provided under the plan and the allocation of costs between the employer and employee. The HCC receives input from a 21-member Employee Advisory Committee that was established in 1995.

Over the years, the State Employee Health Plan has been expanded to include other employee groups. In 1999 the HCC approved inclusion of employees in Kansas public school districts, community colleges, technical colleges and vocational technical schools into the plan. In 2000, certain units of local government were allowed to join, including cities, counties, townships, public libraries, public hospitals and extension councils.

Underwriting guidelines were developed to assure that state employees would not be adversely affected by those

additions. Non-state entities pay different composite rates and premiums to reflect the cost of administering those benefits.

For most of its history, SEHP was administered through the Department of Administration which contracted out with third-party administrators. In 2006, the function was shifted to the newly-created Kansas Health Policy Authority.

Data Policy and Evaluation: The Data Policy and Evaluation Division was established to consolidate data management and analysis with policy evaluation. All program data for Medicaid, SCHIP, and the State Employees Health Plan are available to analysts to assess the impact of proposed policies, forecast utilization and expenditures, and provide information to the KHPA Board, staff, and other stakeholders.

KHPA is charged with the responsibility of collecting a wide range of health and health care information that includes programmatic and administrative data as well as market-generated data. These data come from Medicaid and SCHIP, the State Employees Health Benefits Plan, State Workers Compensation Self-Insurance Fund, inpatient hospital claims information, heath care provider licensure databases, and private insurance data from the Kansas Health Insurance Information System (KHIIS).

House Substitute for SB 272, the enabling legislation for KHPA, transferred the responsibility for collection and management of a wide range of data once managed by the Health Care Data Governing Board (HCDGB). In addition, House Substitute for SB 577 transferred to KHPA responsibility for collection of data from insurance carriers on behalf of the Commissioner of Insurance. KHPA is further charged with using and reporting those data to increase the quality, efficiency and effectiveness of health services and public health programs. KHPA is required specifically to adopt health indicators and include baseline and trend data on health costs and indicators in each annual report submitted to the Kansas Legislature.

Governor's Budget

FY 2009 Budget: The FY 2009 Governor's Recommendation for KHPA is $1.8 billion (including $503.2 million from the State General Fund). Excluding Medicaid, HealthWave, and other assistance programs, the Governor's recommendation for program administration totals $88.0 million (including $23.2 million from the State General Fund). The recommendation reflects a 6.6% reduction in administrative spending compared to the KHPA approved budget. We made some of those reductions through administrative belt-tightening and contract reductions in the fall in order to meet the budget restrictions imposed during the budget development process as requested by the Governor. However, the Governor's budget recommends $11.2 million in additional reductions to FY 2009 State General Fund expenditures.

FY 2010 Budget: For FY 2010, the Governor recommends $1.9 billion (including $515.0 million from the State General Fund). For program administration, the budget recommends $82.6 million (including $22.3 million from the State General Fund). This is a 12.3% reduction compared to the approved FY 2009 administration budget.

These reductions are described in the table below:

Selected Budget Reduction Items in Governor's Budget

	FY 2009		FY 2010	
	SGF	All Funds	SGF	All Funds
Reduce Contractual Service Expenditures	$1,111,749	$5,734,123	$1,321,175	$5,525,000
Reduce Salary and Wage expenditures	$383,595	$1,153,866	$440,430	$1,246,706
Administrative reductions in travel, printing, supplies, communications, equipment replacement	$67,249	$399,000	$53,642	$359,100
Implement Employer Sponsored Insurance for SCHIP - Supplemental request	$125,000	$250,000		
Citizenship Paperwork Requirement for SCHIP - Supplemental request	$280,000	$560,000		
Switch Health Care Access Improvement Fee Fund for State General Fund	$6,000,000			
Switch Medical Programs Fee Fund for State General Fund	$2,500,000		$5,700,000	
Correct SCHIP expenditures to match caseload estimate	$689,687	$2,518,481		
Return unspent Children's Initiative Fund for Immunizations		$222,123		
Return unspent State General Fund from Regular Medicaid appropriation	$997,907	$997,907		
Move Children's Initiative Fund for immunization to KDHE				$500,000
Medical Assistance program recommendations and Transformation savings.			$9,500,000	$23,900,000
18 month time limit for Medikan Enrollment			$6,700,000	$6,700,000
Expand Preferred Drug List to include mental health drugs			$800,000	$2,000,000

Agency Impact: I would like to point out two items specifically that were included in the Governor's recommendation that will have substantial impacts on the ability of KHPA to continue meeting its statutory mission. The Governor's budget requires a $1.2 million reduction in salary and wage expenditures in FY 2009 and FY 2010 compared to the KHPA submitted budget. We currently employ 262 full time employees although we are authorized for 284 positions. The reductions in the Governor's budget will require KHPA to hold 26 positions vacant during FY 2009 and an additional 9 positions vacant during FY 2010 – for a total of 35. This is a salary reduction of more than 10% of our workforce. Our submitted budget included an estimate of savings related to turn over of $604,777 which is equivalent to 11 vacant positions. To meet the salary and wage budget recommended in the Governor's budget, KHPA will have to evaluate whether key programs can continue or if staff will need to be reassigned to cover critical shortages. We are continuing to analyze the impact of the salary recommendation and will consult with the KHPA Board of Directors on additional steps.

The reductions in contractual service expenditures total $5.7 million in FY 2009 and $5.5 million in FY 2010. KHPA began notifying contractors of the need to cancel or renegotiate contract terms in November 2009. This was done to meet the preliminary reductions asked for by the Governor. Given that only six months of the fiscal year remain, achieving $5.7 million in contractual savings will mean harsher reductions this year across the agency to meet budget targets. We will continue the process of evaluating contracts and contractors to reduce planned expenditures for FY 2010.

In addition to the targeted reductions in salaries and contractual services, as I mentioned earlier, KHPA has already begun our administrative belt-tightening, including instituting a hiring freeze; banning out-of-state travel, limiting printing and communications, and restricting staff training. These measures will need to be continued throughout FY 2009 and FY 2010 to meet the Governor's recommended budget targets.

The Governor's budget does not recommend eliminating programs for beneficiaries or reducing provider reimbursement.

The Governor's budget did include many of the recommendations derived from the Medicaid Transformation process, and also includes two proposed program changes that the KHPA submitted to the Division of Budget in order to meet our reduced resource budget targets for FY 2010. In FY 2010, the Governor's budget reduces the Medicaid caseload estimate by $32.6 million, including $17.1 million from the State General Fund.

The reduced resource packages that were adopted by the Governor include:

- **Expansion of the preferred drug list.** State law currently prohibits management of mental health prescription drugs dispensed under Medicaid. Under this proposal, that prohibition would be rescinded and KHPA will use the newly created Mental Health Prescription Drug (PDL) Advisory Committee to recommend appropriate medically-indicated management of mental health drugs dispensed under the Medicaid program. Using a PDL together with an automated prior authorization process, we can directly manage the safety and effectiveness of mental health prescription drugs.

  Over the past three fiscal years mental health drugs have been the highest drug expenditure by class of medications and the most-prescribed drugs by volume. This has led to cost growth in pharmacy services that exceeds growth in other services. Expenditures for mental health drugs increased from the previous fiscal year by more than $4 million in FY 2007. In addition to the cost growth issue serious concerns about safety have arisen, especially in children. An analysis of KHPA claims data revealed that 6,179 Kansas children under age 18 on Medicaid received a prescription for an atypical antipsychotic. From April to June of 2008, 214 children under 18 were prescribed 5 or more different antipsychotics within a 90 day period. Many of these newer drugs have recently been associated with negative side effects. A large scale meta-analysis of 150 scientific trials found that the newer generation of anti-psychotics carried no clear advantage in effectiveness in the treatment of schizophrenia, were associated with significant new risks, and in comparison to the older drugs did not improve on the pattern of side effects observed in older drugs.

  In order to use the expertise of mental health providers and consumers in Kansas to better manage these prescription drugs, the KHPA is currently recruiting members for the mental health prescription drug advisory committee and begin development of the Preferred Drug List (PDL). In fiscal year 2010 will continue to expand the PDL and develop criteria for prior authorization of selected drugs. The KHPA proposal would begin using the mental health PDL in January of 2010 with an expected savings of $2,000,000, including $800,000 from the State General Fund in FY 2010.

- **Time limited MediKan.** MediKan currently provides health care coverage to persons with significant impairments who do not meet the level of disability necessary to receive Medicaid and are unlikely to meet Social Security Disability criteria. However, people eligible for MediKan are required to pursue Social Security benefits as a condition of eligibility. The reduced resource proposal would place a firm "lifetime limit"on the receipt of MediKan benefits with no exceptions or hardship criteria. Also, using Working Healthy as a model, MediKan would be modernized by redirecting a portion of current expenditures to offer

a package of services consisting of basic health care and employment services aimed at re-entry into the workforce and achieving self-sufficiency.

Although a lifetime limit of 24 months currently exists in the MediKan program, the limit can be waived if the individual is still attempting to receive Social Security benefits, creating a "hardship exception." Almost 30% of the current MediKan caseload receives coverage under the hardship exception. The KHPA proposal estimated that applying the time limit and developing the modified services package would result in savings of $1.5 million from the State General Fund during FY 2010. The Governor increased the savings estimate to $6.7 million from the State General Fund. The Governor's recommendation includes using $5.0 million of the program savings to provide limited health care and workplace training services. This is roughly half of what the KHPA had proposed to offer the limited health benefits and workplace training.

Medicaid Transformation Process: In addition to these reductions submitted in the budget, KHPA was asked to suggest additional ways of reducing Medicaid expenditures. KHPA has engaged in the process of reorganizing and refocusing the agency to expand capacity for data analysis and management, and to adopt data-driven processes in the management of it's programs. For the past two years the Medicaid program has undertaken a new and increasingly comprehensive effort to utilize available data and program management experience to review each major component of the program. In 2008 KHPA completed fourteen program reviews as the first step in the KHPA Medicaid Transformation Plan. The Medicaid Transformation and program reviews identified several administrative changes and efficiencies that could be implemented in the Medicaid program without reducing the number of people served or providers of Medicaid services. Recommendations from the Medicaid Transformation process, coupled with additional administrative savings and efficiencies in pharmacy requested by the Governor are included in the following table:

	FY 2010	
	SGF	All Funds
Pharmacy Changes Cost reimbursement for physician office administered drugs Improve cost avoidance and third party liability in pharmacy claims Accelerate review of generic drug price limits	$4,400,000	$11,000,000
Ensure Medicare pays its share of hospital charges for beneficiaries with dual eligibility	$4,000,000	$10,000,000
Home Health Reforms	$200,000	$500,000
Durable Medical Equipment pricing reforms	$160,000	$400,000
Transportation Brokerage	$200,000	$500,000
Tighten payment rules for Hospice Services	$300,000	$750,000
Automate and expand pharmacy prior authorization	$300,000	$750,000
Total	$9,560,000	$23,900,000

These changes to Medicaid total $23.9 million in savings, including $9.6 million from the State General Fund that are part of the Governor's recommended budget for FY 2010.

We continue to analyze the Governor's recommendation regarding a seven pay period moratorium on employer contributions to the State Employees Health Benefits Plan. We will be communicating our analysis of the programmatic impact of the Medicaid transformation and cost savings proposals to our Board, to stakeholders, and to legislators in the coming weeks.

Federal Reauthorization of SCHIP: More than 39,000 Kansas children will continue receiving health care coverage under the State Children's Health Insurance Program (SCHIP), thanks to this week's passage of federal legislation reauthorizing the program. In addition, provisions of the bill that authorize states to expand eligibility for the program could extend coverage to another 8,000 Kansas children by Fiscal Year 2015, if the Kansas Legislature approves funding for such an expansion.

Background: SCHIP was established in 1997 to provide health insurance to children in low-income families that do not have private insurance and do not qualify for Medicaid. Currently in Kansas, SCHIP offers coverage for children in families with incomes up to 200 percent of the federal poverty level ($35,200 per year for a family of three). The federal government pays 72 percent of the cost in Kansas, up to a defined limit. The state pays the remaining 28 percent, plus any amount above the federal allotment. Before the recent action in Washington, SCHIP was set to expire in March.

In 2008, Kansas lawmakers approved expanding eligibility for the program up to 225 percent of FPL starting Jan. 1, and then to 250 percent of FPL beginning Jan. 1, 2010. That expansion, however, was conditioned on increased federal funding, and appropriation of additional state funds. Today's action in Washington now makes it possible to implement that expansion, if the governor and legislature decide to do so.

In December 2008 (the most recent data available), there were 39,483 children enrolled in SCHIP in Kansas. The Kansas Health Policy Authority estimates that expanding SCHIP to 250 percent of FPL would bring 2,125 children into the program in State Fiscal Year 2010. That would grow to 5,390 additional children in SFY 2011, and about 8,000 children by SFY 2015. KHPA estimates that would cost about $1 million in additional state general fund money in SFY 2010, and $2 million in SFY 2011.

That concludes my testimony. Looking ahead to the coming year, we acknowledge that Kansas faces serious economic and fiscal challenges. We also acknowledge that these challenges present a kind of double-edged sword for the state: increased demand for publicly-funded health services; and fewer resources available to pay for them. Because of that, we believe now it is more important than ever to leverage the resources we have to provide the best possible service to Kansans in the most effective and cost-efficient manner possible.